

Testimony to the Commerce Committee  
March 15, 2012  
In support of Raised House Bill # 5466:  
**AN ACT CONCERNING SOCIAL ENTERPRISE BUSINESSES**

I write in support of Raised House Bill No. 5466. As an attorney and advocate for non-profits and small businesses, this bill will grow jobs and help solve community problems with no cost to the state. Over the past year, I met with numerous leaders in the non-profit, government and small business community as part of a task force designed to explore models and introduce social enterprise legislation in Connecticut. The task-force was lead by RESET Social Enterprise Trust. RESET is an organization devoted to making Connecticut a national leader in social enterprise. I enthusiastically support the passage of a bill introducing a unique corporate structure, referred to as Social Enterprise Business, or “SEB”.

The social enterprise field is quickly growing and several states have already passed legislation related to two types of social enterprises, L3Cs and benefit corporations. Social Enterprise Business is a type of evolved capitalism that allows officers and directors to consider factors like the environment, the community and employees *alongside* of profit. Social enterprise marries the best ideas of business, with the best intentions of non-profits to create a hybrid. While this legislation is modeled after Benefit Corporation statutes found in states like New York and California, it is distinct in that it creates additional safeguards to promote transparency and ensure legitimacy of the social enterprise.

Reports from JPMorgan forecast impact investing to be a \$400 billion to one trillion investment opportunity over the next decade. Passage of this legislation will help entrepreneurs tap into these investment dollars and make Connecticut a leader in social enterprise. Creating a ready-made legal form designed with social entrepreneurs in mind will help minimize start-up concerns and legal costs, and give entrepreneurs a leg-up in the competition to secure investment dollars.

I recommend the following suggestions to improve HB 5466:

- A “Dissenter’s Rights” clause should be added so that a shareholder of a corporation that converts to a Social Enterprise Business has the right to receive a cash payment for the fair market value of their shares in the event that they object to the conversion;
- A “Dissolution Clause” should be added to protect the integrity of the underlying social benefit. Such a clause would prevent third-parties from setting up shop as a sham Social Enterprise Business, only to later be converted into a traditional corporation that raids the reserves and value created on the market benefits and respected status of a Social Enterprise Business;

- A third-party standard for defining, reporting and assessing corporate social and environmental performance is the hallmark of legislation that has been passed in other jurisdictions and should be included in this legislation. A third-party standard promotes transparency, accountability and helps to measure and benchmark results. Such a standard would be developed by an organization that is independent from the Social Enterprise Business, and the factors for assessment and the weight of those factors would be publicly available.
- A clause should be inserted in Section 3, which indicates that “creation of social and specific public benefit as provided in this act should serve the best interests of the social enterprise business.” This curtails the possibility that a third-party would set-up a sham Social Enterprise Business that would serve that third-party’s best interests and not the articulated social and specific public benefit of the Social Enterprise Business.
- The legislation should be narrowed by inserting “specific” public benefit into Section 3(d).
- Section 4(a) should replace “articles” of incorporation with “certificate” of incorporation to reflect Connecticut Statutes.
- Section 4(a), 4(b) and 4(c) are too broad and open to adjudication. For example, terms like “unreasonable”, “fair”, “certain classes” and “when practicable” should be eliminated. A more workable solution might set a multiplier cap on the difference between compensation of the highest paid employee versus the lowest paid employee.
- Section 4(d) needs to specify that the distribution to a specific public benefit should be to an actual charitable organization so that there is no confusion about the beneficiary.

Social enterprise has the potential to harness the power of the free market to solve the problems of poverty, hunger, and environmental degradation; social enterprise has the power to create effective urban renewal and the kind of entrepreneurial opportunity that lifts every officer, manager, shareholder, stakeholder, and employee in the process. In short, social enterprise legislation has the power to transform the way businesses function and in the process, transform our world.

Thank you for your consideration of this important matter. I ask for your support of the bill and am available for any questions you may have.

Respectfully,

Michael A. Martone  
 32 Buttermilk Lane  
 Branford, CT 06405  
[MichaelMartone@gmail.com](mailto:MichaelMartone@gmail.com)